

THE WHITE HOUSE

WASHINGTON

ACTION SUMMARY

I. President Reagan has taken the following two actions:

1. Established the Cabinet Council on Management and Administration. This Cabinet Council will handle those matters pertaining to the management of the Executive Branch on a government-wide basis and will be charged with overseeing the management improvement programs.

Edwin Meese, Counsellor to the President, will serve as Chairman pro tem. Other members are: Secretary of the Treasury, Secretary of Defense, Secretary of Commerce, Secretary of Health and Human Services, Secretary of Transportation, Director of the Office of Management and Budget, Administrator of the General Service Administration, and Director of the Office of Personnel Management. The Vice President, Chief of Staff to the President, and Assistant to the President for Policy Development are ex officio members.

2. Established the President's Task Force on Management Reform. This group will implement REFORM '88, a long-term program to improve the management and administrative systems of the federal government. Martha O. Hesse is the Executive Director. Larry Byrne is Deputy Executive Director; Jack Lichtenstein is Communications Director; Guy Chamberlin, Howard Messner and Seymour Greenstone serve as senior advisors.

II. The following projects of REFORM '88 are either in process or now completed:

1. Implement an administrative online communications system linking the White House and Cabinet Departments, to be used initially in the cabinet council scheduling/agenda/reporting process.
2. Review and reduce central agency regulations, beginning with OMB.
3. Implement nine cost savings projects to reduce the budget deficit in 1983-85 and to improve government operations and controls.

*Tom C. Adams  
want to hear.*

4. Inventory agency management projects and systems to determine what we have, what's best, and how to share what works.
5. Begin short and long-term planning effort for improvement of overall management systems.

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WASHINGTON

September 22, 1982

REFORM '88

SUMMARY

Presidential Counsellor Edwin Meese has announced a six-year program of the Reagan Administration to make permanent improvements in the management and administrative systems of the federal government. A Presidential Task Force on Management Reform, comprised of federal managers, will examine administrative systems government-wide. The Task Force will examine systems in budget and financial management, property management, personnel, and management information. It will receive policy guidance from the newly-established Cabinet Council on Management and Administration and will report directly to the Office of Management and Budget and the Office of Policy Development. Management improvement initiatives, developed over the past 18 months, will provide the Task Force with a strong foundation for management reform.

## MANAGEMENT REFORM IN THE REAGAN ADMINISTRATION

The Reagan Administration is committed to improving the way the federal government is run. President Reagan has repeatedly emphasized his personal commitment to making the government responsive to the people and to stop waste of tax dollars. When he first came into office, President Reagan asked OMB to begin an active campaign to make management improvements that will have a lasting impact on the federal government. Reform '88 is the next step to advance the progress made since January, 1981. The results to date include:

- President's Council on Integrity and Efficiency:

When President Reagan assumed office there was no effective way for the Inspectors General to work together. The President's Council on Integrity and Efficiency was created in March, 1981, to enhance interagency efforts to reduce fraud and waste, and to give the Inspectors General a direct link to the President. In the first six months of fiscal year 1982, the Inspectors General program yielded savings and improved use of federal funds totaling \$5.8 billion.

- Audit Followup:

When the President established the Council on Integrity and Efficiency in March, 1981, to strengthen the role of the Inspectors General, he also directed agency heads to designate a senior management official to be responsible for seeing that the recommendations of the IGs and the GAO were implemented. OMB immediately began to develop standards for effective followup by reviewing existing agency practices and getting agencies to make needed changes.

The value of greater emphasis on followup audits and other reports was immediately apparent: unresolved audits were reduced from over \$1.5 billion, reported by the GAO in January, 1981, to less than \$200 million in only nine months.

- Improved Internal Controls:


Many of the problems of fraud and waste in government programs are due to weaknesses in internal agency controls or breakdowns in compliance. The President ordered an aggressive, government-wide program to strengthen the controls, and in October, 1981, OMB issued a policy statement charging agency heads to establish and maintain improved control systems and make regular reviews to see that controls are followed. The Administration has also supported legislation, the Federal Managers's Financial Integrity Act, that reinforces and strengthens the OMB directive.

- Debt Collection:

As a result of years of inattention and neglect, more than \$33 billion of the \$239 billion owed the government is delinquent or in default and the government is now writing off over \$1 billion each year in bad debts. Daily interest on delinquent debts is over \$14 million. The President directed federal agencies to implement an aggressive program to recover delinquent debts, improve credit programs and, for the first time, report progress on outstanding debts to Treasury. Federal agencies are now taking administrative actions to improve the process for screening credit applicants, extending credit, and training collections personnel and holding them directly accountable for improved collection efforts. In addition, the President is seeking legislation that will strengthen federal debt collection. Over \$1.5 billion in delinquent debts will be recovered this year as a result of administrative improvements alone.

- Travel Management:

The federal government spends nearly \$5 billion annually for travel. Federal travel management is plagued by excessive costs, needless overhead, inconsistent regulation and cumbersome procedures and paperwork. The President called for improvements in agency travel policies and practices to simplify travel regulations, to tighten travel authorization procedures, and to maximize the use of available discounts. These reforms are expected to result in savings of \$200 million annually.



- Periodicals, Pamphlets and Audiovisual Products:

In April, 1981, the President determined that the federal government was spending excessive amounts on public relations, publicity and advertising. He directed reductions in spending on government magazines, pamphlets and audiovisual products. OMB imposed a moratorium on all new products in this area, required a comprehensive review of all existing products, and required stricter internal controls over future production. Improvements have resulted in the elimination or consolidation of almost 2,000 publications and cost reductions on an additional 2,300, more than one out of every three publications. Savings of over \$20 million annually are projected in the coming years. N

These are just a few of the initiatives currently underway to improve the management of the federal government. All these activities will be brought together and aggressively pursued under Reform '88. In addition to these, other management improvement projects are being carried out by the Administration and outside groups on which the Administration will draw for expertise and recommendations. These include projects of the President's Private Sector Survey on Cost Control, the National Academy of Public Administration, and the Assistant Secretaries for Management Group. Utilizing the best available resources, Reform '88 will greatly enhance our ability to permanently improve the federal government.

The following projects of Reform '88 are either in process or now completed:

- Implement an administrative online communications system linking the White House and Cabinet Departments, to be used initially in the cabinet council scheduling/agenda/reporting process.
- Review and reduce central agency regulations, beginning with OMB.
- Implement nine cost savings projects to reduce the budget deficit in 1983-85 and to improve government operations and controls.

- Inventory agency management projects and systems to determine what we have, what's best, and how to share what works.
- Begin short and long-term planning efforts for improvement of overall management systems.

REFORM '88PROPOSES A FEDERAL STRUCTURE OPERATING IN A BUSINESSLIKE MANNER, PROVIDING ESSENTIAL PUBLIC SERVICES OF HIGH QUALITY AS EFFICIENTLY AS POSSIBLE.

1. We envision a federal government management system based on a "holding company" approach -- central policy and coordination, with decentralized responsibility of agency heads for carrying out programs. There would be simple, integrated, consolidated management systems, characterized by:

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  - planning driving budgeting driving performance
  - clear accountability and automated auditing
  - incentives to control costs
  - efficient contribution by central management agencies to streamlined management
  - consolidated units to handle high volume activities in a compatible, cost-effective manner
  - freedom from unnecessary internal regulatory requirements
  - application of modern technology
  - productive utilization of federal personnel with practical performance standards.
2. Reform '88 will be a phased project, spanning more than six years, directed by the White House and OMB, and implemented in the agencies by project teams.

A Cabinet Council on Management and Administration has been established to handle those matters pertaining to the management of the Executive Branch on a government-wide basis, including such areas as personnel management, financial management, information systems, and logistics management. Specifically, this Cabinet Council will be charged with overseeing the management improvement programs.

Joseph R. Wright, Deputy Director of OMB, will direct the Reform '88 oversight activities of the Cabinet Council. The program will be planned and directed by the President's Task Force on Management Reform, located in OMB and under the direction of Martha O. Hesse. Other key Task Force members include: Larry Byrne, Deputy Executive Director; Jack Lichtenstein, Communications Director; and Guy Chamberlin, Howard Messner and Seymour Greenstone, senior advisors.

Members of the Task Force are appointed and career federal managers, selected from the various agencies for their knowledge of and experience in management and administrative systems, particularly those of the federal government. As a small cadre detailed to the Office of Management and Budget, they will work closely with the management divisions of OMB that have been working on this effort to date and with managers in the departments and agencies, identifying and developing model systems and applying their principles to systems that are now incompatible, redundant or obsolete. The projects will be developed and implemented in the agencies.

3. The Task Force has begun a number of management activities, and has already implemented the online communications system linking the White House and the Cabinet Departments. Announcements of new projects and or new management improvements will be made in the coming weeks.

The President has committed his Administration to budget deficit reductions in 1983-85 through management improvements. Dollar goals for these improvements will be assigned to the agencies. Achievement of these goals is the responsibility of Reform '88. The nine projects already underway are:

- increase debt collection
- improve cash management
- increase excess property sales
- reduce waste, fraud, and abuse
- reduce non-defense employment 75,000 by 1985
- procurement reforms
- reduce unliquidated obligations
- paperwork reduction
- other ongoing projects

The immediate plan is to begin work on both short and long-term management system improvements.

#### First (October '82)

- OPD/OMB develop plans and policies with agencies for Presidential approval
- Online communication system linking the White House and agencies to be used first in Cabinet Council scheduling/agenda process and reporting process
- Nine actions for savings, reported online to OMB

#### Second (December '82)

- Complete review and reduce OMB regulations
- Begin implementing President's Private Sector Survey on Cost Control recommendations
- Review and recommend changes in responsibilities of Assistant Secretary for Management
- Propose options for longer-term management system changes

Third (March '83)

- Review and reduce GSA, OPM, Office of Federal Procurement Policy and Treasury regulations
- Begin longer-term implementation of new management system

WHY MANAGEMENT REFORM?

THE U.S. HAS A LARGE, GROWING, CHANGING GOVERNMENT THAT IS DIFFICULT TO DIRECT AND ADMINISTER -- AND IS VERY EXPENSIVE.

OUR ANTIQUATED MANAGEMENT PROCESSES AND TECHNOLOGIES MAKE IT DIFFICULT TO ACCOMPLISH PRESIDENTIAL GOALS.

1. The Office of Management and Budget (OMB) reviewed management systems in the private and public sectors. Four of the most professional, effective and cost efficient are:

- City government of Dallas, Texas
- State government of Oregon
- Government of Japan
- International Telephone and Telegraph

Each of these is unique but has certain characteristics which can be applied to the U.S. Government:

- a clear planning and goal-setting process
- an effective budgeting system tied into the planning process
- a clear definition of responsibility for central staff in support of line management implementation
- an accurate, integrated financial system
- compatible, administrative communication and reporting systems
- a fair, incentive-oriented personnel process
- an effective results analysis and audit process

2. The federal government does not do well when measured against these standards:

Plan/goals	-Spotty, not organized, not routinely set in the past by the White House and agencies
Budget	-Complicated; not necessarily set to achieve policies and goals, too people-intensive
Staff/Line	-Cabinet Councils help, Cabinet Secretary role fairly well defined; lack of agreement on some goals causes confusion
Financial	-Decentralized, incompatible; many systems unapproved by the General Accounting Office (GAO)

MIS	-Manual, project-oriented
Personnel	-Very structured, complicated, few incentives
Results Analysis	-Tied to budget only

And this is further complicated by:

- Hundreds of incompatible management systems using and producing incompatible data
  - Lack of information on cost and impact of program delivery in many cases
  - Computer technology for administrative services that is at least 10 years behind private sector
  - No automated auditing, so prevention of waste, fraud and abuse very difficult
  - Inadequate cash and debt management systems
  - Inadequate property and personnel management systems
3. This situation makes it difficult to meet Presidential goals and effectively manage for results, and is very expensive:
- There are a minimum of 325 separate agency financial/accounting systems that are:
    - Basically incompatible
    - Not online to OMB or Treasury or usually even within an agency
    - Only 60% approved by GAO
    - Separate from operational data, impeding results analysis
    - Without automated audit capabilities
    - Expensive to operate

100 million checks are issued every year based on "hard copy" listings. Treasury central accounts receives 3,000 pounds a month of adding machine tapes, forms, etc. which must be manually input into the central system. Twelve hundred statements of "Transaction and Accountability" are sent to Treasury. These are monthly revenue and expense reports. Only 20, from the Department of Defense (DOD), are on magnetic tape. The rest are submitted in hard copy.

Most budget revenue submissions to OMB are on hard copy.

- There are at least 350 different payroll systems that are:
 

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  - Basically incompatible
  - Not online to Office of Personnel Management (OPM) or OMB
  - Lacking productivity or any other analysis capabilities

- Without automated audit capabilities
- Without consistent links to personnel systems
- Expensive to operate

There are 1,750 operating personnel offices in the U.S. most transactions are on tape to the central file, but monthly employment reports are transmitted on hard copy.

American Management Association recently reported that the ratio of personnel specialists in the government is three times that in the private sector because of antiquated systems.

The Navy spent \$150 million and 12 years trying to upgrade its payroll system and still has a 50% error rate.

- There are more than 2,300 administrative payment centers throughout the country, processing more than 700 million documents per year, where:
  - Documents processed per hour range from 2 to 18
  - Direct labor cost per payment in one department ranges from \$3.30 to \$29.00
  - Direct labor cost probably exceeds \$600 million/year
  - GAO believes at least 1/3 increase in productivity is possible and recommends consolidation or elimination of low volume operations.
- The lack of comprehensive and integrated systems is a problem not only in managing the government but also in preventing waste, fraud and abuse. We use manual auditing methods in almost all cases. No holding company could effectively manage its business with the federal government administrative system.
- The information systems in many agencies are also far behind the state of the art or are incompatible across agency lines. The federal government cannot centrally determine:
  - Property in the hands of contractors
  - Delinquency and aging of debt owed the government with compatible definitions across agency lines
  - Cash held by grantees
  - Cash balances

- Real time financial data--value of procurements, grants, obligations, commitments
- Number of consultants in the government
- Market value of government real estate
- Performance records of contractors and grantees (government-wide)
- Total federal funds committed to individual states and localities
- State and local government and private sector initiatives that will affect our programs
- Effectiveness measures of programs and operations (as viewed by client groups, general population, and Congress)
- Use of personnel resources and skill availability on a real time basis, for purposes of making assignments
- Pending program decisions in agencies that will affect Presidential policy interests

### THE ROOTS OF THE PROBLEM

GOVERNMENT HAS GROWN LARGER AND MORE COMPLEX AT A FASTER PACE THAN ALMOST ANY SEGMENT OF U.S. SOCIETY -- GOVERNMENT ABILITY TO MANAGE HAS NOT KEPT PACE.

1. In recent years, government sectors of the U.S. have grown at a faster pace than population or GNP. The federal budget has doubled in the past ten years and grown by nearly 700% in the past twenty.
2. The number of employees has not grown as quickly, but their jobs have become more complex because of:
  - ° a changing mix of programs
    - Human resources programs grew twice as fast as the total budget in the past 20 years
    - Defense grew 40% as fast
    - But delivery and administrative systems are geared toward those programs of 20 years ago.
  - ° a dispersed delivery system throughout the U.S.
  - ° An overall antiquated management system that has not been planned or upgraded over the years -- it has just happened. There are some bright spots in those agencies that have worked to improve systems and manage effectively -- but this is not the norm and the systems are incompatible across government.
3. The 2.5 million federal civilian employees are located throughout the U.S. (2.8 million world-wide) to provide as much local service as possible. Management of resources and responsibilities would be difficult, even with a modern management system:
  - 24,500 installations in the U.S.
    - ° 90% outside of D.C.
  - 405,200 buildings in the U.S.
    - ° 2.6 billion square feet
    - ° Four times more than total office space in nation's ten largest cities
    - ° Also, 210 million square feet leased
    - ° 40,000 Federal employees clean and maintain this space

- 450,000 non-military cars/trucks
  - General Services Administration (GSA) vehicles driven a billion miles/year and cost nearly \$300 million to operate
- 104 million pounds of paper printed per year (could circle the earth 30 times)

There are an additional three million employees on contract to the federal government who are part of the management task and five million state and local employees whom the federal government has to work with and through.

4. 2,000 programs are now administered by 153 units of federal government:

Executive Office of the President	9	}	153
Cabinet Departments	13		
Independent Agencies and Corporations	35		
Regulatory Agencies	22		
Boards and Commissions	68		
Quasi-Official Agencies	6		
Advisory Committees	853		
Field Offices	24,520		

Over 60 heads of offices and agencies now report directly to the President!

Since 1965, four new Cabinet Departments have been formed while only one major agency has been eliminated:

<u>In</u>	<u>Out</u>
• Energy	Community Services
• Transportation	Administration (CSA)
• Housing and Urban Development	
• Education	

5. Growth in government agencies has not been uniform or consistent.

New agencies tend to be created or spun off from existing structures. They inherit antiquated administrative systems and worsen them via "patching."

Existing agencies also decentralize and divide their administrative structures, losing efficiencies. As stated earlier, there are some bright spots -- but these are few.

6. Because of the size, complexity, dispersed locations and lack of management systems, the resources dedicated to management and administration in the federal government are substantial:
  - More than 60% of 2.5 million employees are "white collar"
  - Over 30%, or 705,000, are classified as strictly administrative and clerical, costing more than \$45 billion/year
  - 150,000 employees operate 16,000 computers at a cost of \$6 billion/year, but we don't know how many of these are administrative computers
  - 32,000 procurement specialists costing \$2 billion/year write more than 17 million contracts
  - And we don't really know the total cost of administration, which means simply: we don't know the cost of doing business.